

**SAX MACY FROMM & CO., PC**CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

April 28, 2005

Mr. Bruce Allen  
250 Upper Mountain Ave.  
Upper Montclair, NJ 07043

Dear Mr. Allen:

We were retained by you to value your 50% equity interest in Private Label Sourcing, LLC (PLS). It is our understanding that our valuation is to be utilized in connection with the proposed sale of your 50% interest. This summary report is intended for that specific use. This limited appraisal is not an appraisal done in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) in that we have not conducted an in-depth industry or economic analysis. However the methodology used in arriving at the equity value of your interest is an accepted methodology utilized in the valuation of closely held businesses and we believe is an appropriate indication of fair market value of your 50% interest. This limited appraisal should be used only for the purpose indicated, and only by its intended parties for the purpose stated above. The date of our valuation is April 28, 2005.

Private Label Sourcing, LLC is a limited liability company formed on May 3, 2001 in the State of Delaware. The Company is located in New York, NY and is engaged as a commission agent and importer of women's apparel, which is sold principally to one major national retailer. The ownership of the Company is presented in Table 1 below.

Table 1 – Ownership

<b>Owner</b>	<b>Ownership Interest</b>
Bruce Allen	50%
Christine Dente	50%
<b>Total</b>	<b>100%</b>

Several approaches can typically be employed to estimate the fair market value of a closely held business. These include market-based approaches as well as economic benefit models. We considered all relevant approaches in the context of their appropriateness for PLS. We decided that an economic benefit model, capitalization of cash flow, would best represent an estimate of the fair market value of PLS.

The capitalized cash flow method incorporates the projection of a single normalized amount of economic income (cash flow) and capitalizing that projected amount with a rate that is reflective of the risk involved in receiving that amount on a regular basis. Utilization of the capitalized economic income method does not take into consideration the timing of future changes in income or cash flow. This method is best utilized when there is a stable or predictable income or cash flow.

The initial step in determining the anticipated future free cash flows was to determine a normalized historical income for PLS. Due to the significant changes made in the cost structure of the company, we took the 2005 forecast as the representation of future operations of the Company and made the following normalization adjustments to reflect what could be expected as a future cash flow stream. Historical balance sheets, income statements and cash flow statements for 2001 through 2004 are presented in Exhibits 1 through 3 along with the 2005 forecast.

1. Income was increased by the compensation paid to Bruce Allen as it will no longer be paid to him upon sale of his interest.
2. Net income was reduced by the amount to be paid to Bruce Allen assuming he will be retained as a consultant.
3. Net income was increased by contributions as this is a discretionary expense that is not required for daily operations of the company.
4. We also deducted applicable federal and state incomes on the normalized income.

The normalized net income is summarized in Exhibit 4. We then added back depreciation to arrive at normalized cash flow from operations, which amounted to \$769,667.



The normalized cash flow was increased by \$316,458 to reflect forecasted growth, net of taxes, resulting from a three year growth plan anticipated with the sole customer in the near future. From this amount we deducted an annual amount for estimated future capital expenditures. This resulted in a forecasted future free cash flow of approximately \$1,066,000.

Net free cash flows were brought to present value terms by utilizing a capitalization rate that reflects the risk of the future stream of cash flows being realized. The rate was determined using a Build-Up Method Model. The rate reflects a risk free rate associated with long-term government bonds as well as risk differentials to reflect debt to equity, small company premium and specific company risk. The total of these rates are reduced by a provision for long-term growth resulting in a risk adjusted capitalization rate. The calculation of the capitalization rate is as follows:

The risk free rate is based upon the yield of 20-year treasury bonds and represents the yield rate as of April 28, 2004. The equity risk premium can be defined as the additional return an investor expects to receive to compensate for the additional risk associated with investing in equity securities as opposed to investing in risk free assets. The size premium is the return differential to compensate for the fact that small companies are riskier than larger companies and potential investors require additional return to compensate for the additional risk.

In addition to the adjustment of the capitalization rate to accommodate equity and size premiums, the build-up method also takes into consideration potential specific risk that may be applicable to this industry or company. Due to the reliance on one customer we have selected a 2% specific company risk rate to use in our discount rate.

Table 2 - Calculation of the capitalization rate

Risk Free Rate – 20 Year Treasury Bonds	5.1% (1)
Equity Risk Premium	7.2% (2)
Size Risk Premium	9.8% (2)
Specific Company Risk	2.0%
Discount Rate	24.1%
Sustainable Growth	2.0%
Capitalization Rate	22.1%
Capitalization Rate (Rounded)	22%

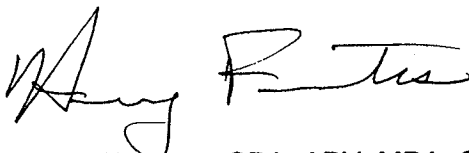
(1) Per Federal Reserve Rates

(2) Per Ibbotson 2004, Stocks, Bonds, Bills and Inflation – Valuation Edition

#### CONCLUSION AND OPINION

It is our opinion, based on this limited appraisal, that the indicated equity value of the 50% equity interest of Bruce Allen in Private Label Sourcing, LLC is approximately \$2,423,000. The computation is presented in Exhibit 5.

SAX MACY FROMM & CO., PC



Henry L. Fuentes, CPA, ABV, MBA, CFE  
Director of Litigation Support and  
Business Valuation Services

## **STATEMENT OF LIMITING CONDITIONS**

1. This summary of value was made for the purpose stated and should not be used for any other purpose.
2. All facts and data set forth are true and accurate to the best of our knowledge and belief.
3. We have no present or prospective interest in the subject company and compensation is in no way contingent upon the value.
4. All values stated are presented based on all the facts and data set forth in the report. We assume no responsibility for changes in market conditions or for the inability of a seller to locate a buyer at the indicated value.
5. Verification of factual matters contained in this report has been made to the extent seemed practical. We believe, to the best of our knowledge and belief, such factual matters are true.
6. We shall not be required to give testimony or appear in court by reason of this summary of value unless specific arrangements are otherwise agreed upon.



## Exhibit 1

Private Label Sourcing, LLC  
Balance Sheets

Assets	Reviewed 12/31/01*	Audited 12/31/02	Audited 12/31/03	NR 12/31/04	Projection 12/31/05
<b>Current assets</b>					
Cash	37,639	108,974	31,465	104,174	22,791
Accounts receivable	-	267,694	6,003	580,104	10,000
Due from factor	578,615	1,154,613	383,631	363,062	851,500
Inventory	333,562	281,104	198,842	893,126	893,000
Prepaid expenses	8,134	49,330	66,271	186,311	494,700
<b>Total current assets</b>	<b>957,950</b>	<b>1,861,715</b>	<b>686,212</b>	<b>2,126,777</b>	<b>2,271,991</b>
<b>Property and Equipment:</b>					
Office equipment	9,375	25,435	27,511	27,511	27,511
Leasehold improvements	177,708	758,632	766,141	32,044	32,044
Computer equipment	-	69,180	87,058	61,892	61,892
Furniture and fixtures	-	237,895	235,372	185,516	186,053
<b>Less: Accumulated depreciation</b>	<b>(4,443)</b>	<b>(133,838)</b>	<b>(305,673)</b>	<b>(119,356)</b>	<b>(173,400)</b>
	182,640	957,304	810,409	187,607	134,100
<b>Other assets:</b>					
Deposits	-	2,400	17,680	56,110	56,000
Restricted cash	120,000	120,000	120,000	-	-
<b>Total other assets</b>	<b>120,000</b>	<b>122,400</b>	<b>137,680</b>	<b>56,110</b>	<b>56,000</b>
<b>Total Assets</b>	<b>1,260,590</b>	<b>2,941,419</b>	<b>1,634,301</b>	<b>2,370,494</b>	<b>2,462,091</b>
<b>Liabilities and Members' Capital</b>					
<b>Current liabilities</b>					
Accounts payable	507,397	1,162,286	1,148,475	1,933,937	1,242,348
Accrued expenses and other current liabilities	213,659	625,023	603,726	352,260	275,000
Due to affiliate	164,218	-	-	-	-
<b>Total current liabilities</b>	<b>885,274</b>	<b>1,787,309</b>	<b>1,752,201</b>	<b>2,286,197</b>	<b>1,517,348</b>
<b>Due to Members</b>	<b>-</b>	<b>-</b>	<b>355,000</b>	<b>445,000</b>	<b>445,000</b>
<b>Total liabilities</b>	<b>885,274</b>	<b>1,787,309</b>	<b>2,107,201</b>	<b>2,731,197</b>	<b>1,962,348</b>
<b>Members' capital</b>	<b>375,316</b>	<b>1,154,110</b>	<b>(472,900)</b>	<b>(360,703)</b>	<b>499,743</b>
<b>Total liabilities and members' capital</b>	<b>1,260,590</b>	<b>2,941,419</b>	<b>1,634,301</b>	<b>2,370,494</b>	<b>2,462,091</b>
	-	-	-	-	-

\* - Date of inception was May 3, 2001



## Exhibit 2

Private Label Sourcing, LLC  
Statement of Income

	Eight Mos. Ended 12/31/01*	Year Ended 12/31/02	Year Ended 12/31/03	Year Ended 12/31/04	Year Ending 12/31/05
Sales	278,003	18,258,263	1,669,722	6,905,663	10,907,440
Cost of goods sold	62,168	16,387,549	1,195,937	5,041,464	9,872,645
Gross profit	215,835	1,870,714	473,785	1,864,199	1,034,795
Commission income	700,000	6,866,666	5,655,928	3,915,042	3,392,570
Operating expenses					
Design and production					
Production salaries		234,756	241,710	491,586	446,400
Design salaries		658,368	690,767	267,524	264,000
Sample hands salaries		51,210	132,943	-	-
Payroll taxes and fringe benefits		146,562	192,777	150,080	104,640
Production consulting		59,540	-	-	30,000
Design expenses		25,532	34,467	63,469	30,000
Automobile expense		71,219	80,155	81,171	36,000
Total design and production	550,301	1,247,187	1,372,819	1,053,830	911,040
Selling					
Rent and occupancy		338,599	330,317	385,942	157,200
Utilities		25,401	16,377	12,442	18,000
Showroom expense		28,404	1,553	1,715	2,400
Travel and entertainment		613,532	368,297	373,815	246,000
Communication		61,638	34,972	33,425	30,000
Total selling	118,359	1,067,574	751,516	807,339	453,600
Warehouse storage	-	248,915	13,037	124,543	171,420
General and administrative					
Members' salaries		782,000	826,000	524,000	510,000
Office salaries		474,772	471,173	497,562	410,000
Payroll taxes and fringe benefits		177,090	237,724	173,028	110,600
Office expense, postage and supplies		60,830	64,400	34,080	40,200
Rental expense		15,610	17,122	14,802	36,000
Insurance		81,564	77,902	55,845	122,000
Professional fees		143,819	121,007	139,414	78,000
Bank charges		84,738	14,641	26,347	5,000
Factor's commission and charges		127,322	81,376	58,302	106,805
Depreciation and amortization		129,397	169,000	172,154	54,000
Provision for unincorporated business tax		85,725	59,458	44,500	-
Retirement plans expense		199,799	203,676	59,116	55,000
Computer expense		24,786	18,612	22,259	24,000
Provision for settlement		100,000	-	75	-
Contributions		13,500	22,000	-	24,000
Repairs and maintenance		25,743	32,787	36,371	36,000
Total general and administrative	189,670	2,526,695	2,416,878	1,857,855	1,611,605
Sample development	-	1,061,764	543,708	616,289	245,000
Total operating expenses	858,330	6,152,135	5,097,958	4,459,856	3,392,665
Net income from operations	57,505	2,585,245	1,031,755	1,319,385	1,034,700



Private Label Sourcing, LLC  
Statement of Income

	Eight Mos. Ended 12/31/01*	Year Ended 12/31/02	Year Ended 12/31/03	Year Ended 12/31/04	Year Ending 12/31/05
Other income/(expense)					
Interst Income	-	5,895	3,305	-	-
Loss on abandonment	-	-	-	(489,907)	-
Interest expense	(2,189)	(171,881)	(37,311)	(128,049)	(20,922)
Total other income/(expense)	(2,189)	(165,986)	(34,006)	(617,956)	(20,922)
Net Income	55,316	2,419,259	997,749	701,429	1,013,778
Other comprehensive loss					
Unrealized loss - pension benefit obligation	-	-	(46,407)	-	-
Total other comprehensive loss	-	-	(46,407)	-	-
Comprehensive income	55,316	2,419,259	951,342	701,429	1,013,778
Members' capital, beginning of year	-	375,316	1,154,110	(472,900)	(360,703)
Capital contributions	320,000	-	-	-	-
Drawings	-	(1,640,465)	(2,578,352)	(589,232)	(92,505)
Members' capital, end of year	375,316	1,154,110	(472,900)	(360,703)	560,570





## Exhibit 3

## Private Label Sourcing, LLC

## Statement of Cash Flows

	Eight Mos. Ended 12/31/01*	Year Ended 12/31/02	Year Ended 12/31/03	Year Ended 12/31/04	Period Ended 12/31/05
Net income	55,316	2,419,259	997,749	701,429	1,013,778
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	4,443	129,397	169,000	172,154	54,000
Change in assets and liabilities					
Accounts receivable	-	(267,694)	261,691	(574,101)	570,104
Due from factor	(578,615)	(575,999)	770,982	20,569	(488,438)
Inventory	(333,562)	52,458	82,262	(694,284)	126
Other current assets	(8,134)	(41,196)	(16,941)	(120,040)	(308,389)
Accounts payable	507,397	654,889	(13,811)	785,462	(691,589)
Accrued expenses and other current liabilities	213,659	411,363	(67,704)	(251,466)	(77,216)
Due to affiliate	164,218	(164,218)	-	-	-
Net cash provided by operating activities	24,722	2,618,259	2,183,228	39,723	72,376
Cash flows from investing activities					
Purchase of property and equipment	(187,083)	(904,059)	(22,105)	450,648	(537)
Purchase of security deposits	-	(2,400)	(15,280)	(38,430)	110
Purchase of certificate of deposit	(120,000)	-	-	120,000	-
Cash used in investing activities	(307,083)	(906,459)	(37,385)	532,218	(427)
Cash flows provided by financing activities					
Capital contributions	320,000	-	-	-	-
Advances from members	-	-	355,000	90,000	-
Members' drawings	-	(1,640,465)	(2,578,352)	(589,232)	(92,505)
Cash provided by financing activities	320,000	(1,640,465)	(2,223,352)	(499,232)	(92,505)
Net increase in cash	37,639	71,335	(77,509)	72,709	(20,556)
Cash, beginning of year	-	37,639	108,974	31,465	104,174
Cash, end of year	37,639	108,974	31,465	104,174	83,618



**Exhibit 4****Private Label Sourcing, LLC****Adjustments to Historical Income**

	<b>Year Ending 12/31/2005</b>
<b>Projected net income</b>	<b>\$ 1,013,778</b>
<b>Adjustments:</b>	
<b>Compensation - Bruce Allen</b>	<b>255,000</b>
<b>Consulting fees - Bruce Allen</b>	<b>(100,000)</b>
<b>Contributions</b>	<b>24,000</b>
<b>Normalized pretax income</b>	<b>1,192,778</b>
<b>Income taxes</b>	<b>477,111</b>
<b>After tax normalized income</b>	<b>715,667</b>
<b>Depreciation</b>	<b>54,000</b>
<b>Normalized cash flow</b>	<b>\$ 769,667</b>



**Exhibit 5****Private Label Sourcing, LLC  
Capitalized Cash Flow**

After tax normalized cash flow	\$ 769,667
Forecasted growth	<u>316,458</u>
	1,086,125
Provision for capital expenditures	<u>(20,000)</u>
Forecasted cash flow	1,066,125
Capitalization Rate	<u>22.00</u>
Enterprise Value	4,846,022
Bruce Allen - 50% ownership interest	\$ 2,423,011

<b>Calculation of capitalization rate</b>	
Risk free rate - 20 year treasury	5.10
Equity risk premium	7.20
Size premium	9.82
Specific company risk	<u>2.00</u>
Total discount rate	24.12
Long term growth	<u>2.00</u>
Capitalization rate	22.12
Capitalization rate rounded	22.00

<b>Forecasted growth calculated:</b>	
12/31/05 projected sales	11,000,000
12/31/05 projected commissions (3,392,570/.08)	<u>42,407,125</u>
12/31/05 projected sales	53,407,125
3 year growth plan	<u>60,000,000</u>
Increase in commissions sales	6,592,875
Commissions rate	<u>8.0%</u>
Forecasted growth	527,430
Income taxes	<u>210,972</u>
After tax forecasted growth	316,458

